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SUBJECT: THE NEGATIVE ECONOMIC IMPACT OF PAKISTAN'S ELECTRICITY  
CRISIS

REF: ISLAMABAD 2996

¶1. (SBU) Summary: Small and medium-sized businesses across Pakistan are feeling a severe economic impact from the country's rolling blackouts. Pakistan's acute electricity deficit - compounded by rising fuel, material, and labor costs - is slowing the economy, and small and medium enterprises are particularly hard hit. Media report that small and medium companies' trade and commercial activities are down 80 percent due to continued and prolonged blackouts. Industry leaders point to prolonged electricity blackouts as the primary cause for the country's economic turmoil and warn that, without government intervention, national revenues could go down 70 percent as a result of the industry slowdown. End summary.

#### Quantifying the Impact

¶2. (SBU) In Karachi, Pakistan's industrial and business hub, prolonged electricity blackouts which are known locally as load shedding, occur up to 16-18 hours per day. Every city and village in Pakistan suffers from varying degrees of prolonged blackouts each day and the country is currently facing a total shortfall of 4500-4750 mega watts. Without power, machines in factories may only be operable for two hours a day, leaving many workers inactive for the greater part of their 12-hour shifts. Business owners, meanwhile, continue to pay full wages and overtime, even as production slows to a halt. As a result, small and medium enterprise activities are down 80 percent, operating at 20 percent of capacity. According to the September 16 edition of "The Business Recorder," as a result of electricity shortage to industries, the national treasury bears over PKR 100 million (USD 1.3 million) in losses per day due to lost production revenues and electrical fees. In retail, sales are also down 80 percent.

¶3. (SBU) Mr. Sabur Ahmed, an energy specialist at the Karachi Chamber of Commerce and Industry, said that the reduction in the work hours due to load shedding is also negatively affecting large scale industry as it generally outsources production of goods to small scale industry. For example, the automobile industry buys auto parts from small scale vendors, which are producing below capacity. According to Mr. Ahmed there has been a 40-45 percent decline in the overall industrial production due to load shedding.

¶4. (SBU) General Secretary Anis-ul-Haq from the All Pakistan Textile Mills Association, a collection of representatives from spinning, weaving and composite textile units, said that 30 percent of the

textile units use electricity provided by the Water and Power Development Authority (WAPDA) and are adversely affected during the severe load shedding. These production losses, coupled with the shift of export houses to India and Bangladesh, have contributed to a 20 percent drop in the quantity of textile exports and a 3 to 4 percent drop in the dollar value of textile exports in FY2007-08. In addition, Mr. Haq observed that the 70 percent of the textile industry, which is using gas based power houses rather than WAPDA electricity, will be negatively affected during winters due to gas load shedding.

15. (SBU) According to Zulfikar Thaver, President of the Union of Small and Medium Enterprises (SME) and member of the National Committee on SMEs, there has been a 50 percent decline in SME production due to power outages. He also noted that while there have not been any large scale lay offs in the SME sector as of yet, loss of employment is inevitable.

#### Stitching in the Dark - - - - -

16. (SBU) One example of an industry hit hard by the power cuts is Pakistan's tailoring business. Ramadan is typically a popular season for clothing purchases, as Pakistani consumers ready for the Eid holiday. This year, however, tailors in Islamabad report that they are accepting fewer orders, as power outages for 6-8 hours a day severely impact productivity. As a result, tailors in Islamabad report that business is down 40-50 percent compared to this time last year. Rising material costs (a reported 15-20 percent for local fabrics and 30 percent for imported fabrics) compounds the financial challenge for tailoring businesses, in addition to high

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power and fuel costs. Rising operating costs have forced tailors to raise prices for Pakistan's national dress, the shalwar kamiz, by PKR 50-100 since last year. As a result, more consumers are turning to the readymade market, pushing those prices up as well. The blackouts are affecting not only full-fledged tailoring businesses, but also freelance tailors, usually women, who stitch clothes at home to supplement household income.

#### Electricity Tariff Increase - - - - -

17. (SBU) The challenge to small and medium enterprises will only intensify once the electricity tariff increase (an average of 31 percent) goes into effect in October. The GOP has also announced an additional 30 percent increase will be necessary to eliminate electricity tariffs. Industry leaders warn that the spike in power costs could lead to an increase in electricity theft. They also point out that the tariff increase presents a veritable catch-22: as the trade deficit widens, feeding inflation, the government increases the electricity tariff to grow revenues, but the tariff increase will also reduce businesses' productivity, in turn slowing the economy.

#### Comment - - - - -

18. (SBU) Post notes that comprehensive information on this subject is not broadly available to provide scientific data and analysis. The figures and information reported here are anecdotal evidence as provided in news media and conversations between Embassy officers and the industry, to illustrate the economic impact of the electricity crisis. With power outages continuing across every region of the country and impacting every demographic, frustration among business leaders and average citizens is increasing. With no quick fix available, energy experts predict that power outages will increase in the upcoming winter months as water levels drop and independent power producers reduce production due to reduced payments from the government as fiscal resources deplete further.

19. (SBU) Comment continued: Many small and medium-sized businesses in Pakistan feel they are facing a financial crisis, as blackouts, security concerns and the country's overarching financial crisis brings productivity to dangerous lows. Larger industrial companies

are better able to cope with the persistent load shedding, as they can afford generators to produce their own electricity during blackouts but they too are feeling the economic pinch since the local price of diesel is increasing as subsidies are reduced. Industry leaders warn that if current trends continue, local industries will be forced to shut down completely, and national revenues could go down as much as 70 percent. Government steps to reduce rising trade imbalance will certainly be offset by an inevitable decrease in exports as manufacturing slows due to increasing energy shortfalls. End comment.

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